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TO RUEHC/SECSTATE WASHDC PRIORITY 8065
INFO RUEHBO/AMEMBASSY BOGOTA 7085
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TAGS: ECON ETRD EINV EC

SUBJECT: ECUADOR ECON WEEKLY: TELECOMMUNICATION COMPANY AND MINING SECTOR CONCESSIONS; MORE TARIFF REVISIONS

¶11. (U) The following is a weekly economic update for Ecuador that reports notable developments that are not reported by individual cables.

GOE Analyzes Porta Cellular Concession

¶12. (SBU) On November 6, the Superintendency of Telecommunications (Suptel) sanctioned the cellular company Porta (the largest provider with 64% of the market, and owned by Mexico's Telmex) for service interruption, saying the move could end up in the termination of its concession. This is the latest fine in a series of several charged to Porta over the last few months for alleged service deficiencies. The National Telecommunications Secretariat (SENATEL) will make a decision on whether or not to renew the concession on November 30. While the outcome is still unclear, the head of SENATEL told the Embassy privately that it does not see a viable alternative service provider to Porta. Industry sources say the recent controversy surrounding Porta's service provision is largely related to GOE efforts to get the company to pay millions of dollars in back taxes that it allegedly owes (Porta has paid significantly less in taxes than has its smaller rival Movistar, owned by Telefonica of Spain).

Tariffs Increase on 259 more products

¶13. (U) During the second of two planned rounds of tariff increases, the Council on Foreign Trade and Investments (COMEXI) approved new tariffs on 259 tariff lines on November 4. The affected products include textiles, metal work, dishware, tobacco products and linens. These tariff revisions are part of the GOE's larger reform efforts. More detailed analysis will be provided Septel.

GOE Wants to Renegotiate Mining Concessions

¶14. (U) On November 7, President Correa and the Ministry of Petroleum and Mines announced their intention to renegotiate current mining company contracts before authorizing new mining concessions. This decision was made based on a GOE study that showed Ecuador has a large mining potential (USD 217.6 billion) and current concessionaries are not producing anywhere near this potential. Galo Chiriboga, the Minister of Petroleum and Mines, mentioned that the GOE is considering the creation of a state company to develop several mining projects such as limestone extraction operations.

¶15. (U) The renegotiation process would be similar to oil companies' contract renegotiations, said Minister Chiriboga, where companies must share at least 50% of extraordinary revenues with the state.

Based upon the type of mining project, the percentage to go to the state could be higher. The GOE is also considering reimposing mining royalties, which were suspended in 2002. According to Chiriboga, concessions would also have to fulfill stricter environmental requirements. For example, mining activities would be prohibited near water reservoirs and national parks. President Correa said that mining law reforms will be debated in the Constituency Assembly. He also added that "Ecuador will no longer accept mining explorations that do not benefit the State, or that [negatively] affect communities."